19TH COMPREHENSIVE EXAMINATION – FEBRUARY 2012

CASE # 1

(a) Projected statement of working capital requirements for two years:

Rupees

	Particulars			Year-1	Year-2
Current Assets:					
(i)	Stock of raw materials:				
	(15,000 units x Rs. 800 x 3/12) for year-1			3,000,000	
	(20,000 units x Rs. 800 x 3/12) for year-2				4,000,000
(ii)	Finished goods:			1,520,000	4,331,430
	Cash cost of production	**Year-1**	**Year-2**		
	Materials @ Rs. 800 per unit	12,000,000	16,000,000		
	Labour and variable expenses @ Rs. 400 per unit	6,000,000	8,000,000		
	Total fixed and administrative expenses				
	(24,000 units x Rs. 200)	4,800,000	4,800,000		
	Current cost (cash)	22,800,000	28,800,000		
	Add: Opening stock at average cost	-			
	$\left[\frac{\text{Rs. } 22,800,000 \times 1,000}{15,000}\right]$ for year-2		1,520,000		
	Less: Closing stock at average cost	1,520,000			
	$\left[\frac{\text{Rs. } 30,320,000 \times 3,000}{21,000}\right]$		4,331,429		
	Cost of goods sold (cash)	21,280,000	25,988,571		
(iii)	Debtors:			1,906,667	2,325,714
	Cost of goods sold (cash)	21,280,000	25,988,571		
	Add: Variable expenses @ Rs. 80	1,120,000	1,440,000		
	Add: Total fixed selling expenses (24,000 x Rs. 20)	480,000	480,000		
	Cost of sales (cash)	22,880,000	27,908,571		
(iv)	Minimum desired cash			200,000	200,000
Total investment in current assets				6,626,667	10,857,144
Current Liabilities:					
(i)	Creditors for supply of materials:				
	(Rs.15,000,000 x 2/12; Rs. 17,000,000 x 2/12)			2,500,000	2,833,333
	Materials consumed	12,000,000	16,000,000		
	Add: Closing stock				
	(equivalent to 3 month's average consumption)	3,000,000	4,000,000		
	Less: Opening stock	-	(3,000,000)		
	Purchases	15,000,000	17,000,000		
(ii)	Creditors for expenses:				
	(Rs. 12,400,000 x 1/12; Rs. 14,720,000 x 1/12)			1,033,333	1,226,667
	Labour and variable	6,000,000	8,000,000		
	Fixed manufacturing and administrative	4,800,000	4,800,000		
	Selling (fixed and variable)	1,600,000	1,920,000		
	Total expenses	12,400,000	14,720,000		
	Total current liabilities			3,533,333	4,060,000
	Working Capital (net)			3,093,334	6,797,144

Note: Working capital is required in respect of the full amount of fixed overheads.

CASE # 2

(a) **ABC Ltd.**

Statement showing profitability at various levels/ per month

Rs. in million

	15,000 Tyres Level		20,000 Tyres Level		30,000 Tyres Level	
	Own Brand Manufacture	Conversion	Own Brand Manufacture	Conversion	Own Brand Manufacture	Conversion
Sale Value	52.50	10.50	70.00	14.00	105.00	21.00
Material	39.38	0.00	52.50	0.00	78.75	0.00
Indirect material/ Consumables	0.38	0.38	0.50	0.50	0.75	0.75
Employment cost	5.00	5.00	5.00	5.00	5.00	5.00
Power and fuel (N-1)	4.88	4.88	5.80	5.80	6.75	6.75
Other fixed overheads	1.50	1.50	1.50	1.50	1.50	1.50
Selling and distribution overheads – fixed	2.00	2.00	2.00	2.00	2.00	2.00
Variables (6% of sales)	3.15	0.00	4.20	0.00	6.30	0.00
	56.28	13.75	71.50	14.80	101.05	16.00
PBDT	(3.78)	(3.25)	(1.50)	(0.80)	3.95	5.00
Depreciation	4.00	4.00	4.00	4.00	4.00	4.00
Interest on working capital	1.50	0.00	1.80	0.00	3.00	0.00
Net profit/ (loss)	(9.28)	(7.25)	(7.30)	(4.80)	(3.05)	1.00

Power and Fuel:

15,000 x 325 = Rs. 48.75 million

Power and fuel cost per unit reduces on prorata basis with increase in production.

Upto 15,000 – Rs. 325 per unit

at 30,000 – Rs. 225 per unit

i.e., for 15,000 units – Rs. 100 per unit reduction

for 5,000 units – ?

$$\frac{5{,}000}{15{,}000} \times 100 = \text{Rs. } 33.33 \text{ per unit}$$

For 20,000 units = 325 – 33.33

= 291.67

say Rs. 290 per unit is considered here

20,000 x 290 = Rs. 58.00 million

30,000 x 225 = Rs. 67.50 million

(b) Best Course of Action – Short-Term Measure:

As a short-term measure, it will be profitable to do the conversion job. The level of operation should be at 30,000 tyres level.

As a long-term measure, it will be profitable to manufacture own brand. It is not advisable to depend upon another party for supply of raw material for a long-term.

Further, as per indication of value engineering, the cost of material may come down from 75% to 72% of selling price. Even then the production level should be at 30,000 tyres. Then the budgeted profitability at various levels per month will be as follows:

Statement showing Budgeted Profitability at Various Levels/ per month

Rs. in million

	15,000 Tyres Level Per Month Level	20,000 Tyres Level Per Month Level	30,000 Tyres Level Per Month Level
Sale Value	52.50	70.00	105.00
Material	37.80	50.40	75.60
Indirect material/ consumables	0.38	0.50	0.75
Employment cost	5.00	5.00	5.00
Power and fuel	4.88	5.80	6.75
Other fixed overheads selling and distriubtion	1.50	1.50	1.50
Overhead – Fixed	2.00	2.00	2.00
Variables (6% of sales)	3.15	4.20	6.30
	54.70	69.40	97.90
PBDT	(2.20)	0.60	7.10
Depreciation	4.00	4.00	4.00
Interest on working capital	1.50	1.80	3.00
Net profit/ (loss)	(7.70)	(5.20)	0.10
Corresponding position if only jobbing is done	(7.25)	(4.80)	1.00

THE END